

Message Text

CONFIDENTIAL

PAGE 01 COPENH 00829 01 OF 02 281129Z

51

ACTION EUR-25

INFO OCT-01 ISO-00 DRC-01 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04

USIA-15 PRS-01 NEA-10 AF-10 SIL-01 LAB-06 /201 W

----- 121487

R 281013Z MAR 74

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 8708

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION NATO

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

C O N F I D E N T I A L SECTION 1 OF 2 COPENHAGEN 0829

E.O. 11652: GDS

TAGS: PFOR, PINT, DA

SUBJ: QUARTERLY TREND REPORT - DENMARK (FIRST QUARTER 1974)

REF: COPENHAGEN 3257 (NOTAL)

STATE 54853

SUMMARY. DENMARK MANAGED TO LIMP THROUGH THE FIRST

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PAGE 02 COPENH 00829 01 OF 02 281129Z

QUARTER OF 1974 IN SOMEWHAT BETTER ORDER THAN MANY

OBSERVERS HAD EXPECTED. ALTHOUGH THE DANISH ECONOMY SEEMED PARTICULARLY SUSCEPTIBLE TO TURMOIL IN INTERNATIONAL ENERGY CRISIS, AND DANES WERE SUBJECT TO SPECIAL STRICTURES BY SOME ARAB OIL PRODUCERS, ACTUAL EFFECT ON INDUSTRIAL AND PRIVATE USERS HAS APPARENTLY BEEN MINIMAL. ECONOMY NONETHELESS REMAINS THREATENED BY UNCONTROLLED INFLATION AND RISING BALANCE OF PAYMENTS DEFICIT. DANISH GOVERNMENT PLAYED GENERALLY POSITIVE ROLE IN WASHINGTON ENERGY CONFERENCE, IN SPITE OF FOREIGN MINISTER GULDBERG'S TENDENCY TO SEE PROBLEM THROUGH VIN ROSE' COLORED GLASSES. OTHER OFFICIALS, INCLUDING PRIME MINISTER HARTLING, AND LARGE MAJORITY IN PARLIAMENT HAVE INDICATED THEIR DESIRE TO REINFORCE TRANS-ATLANTIC TIES, RATHER THAN WEAKEN THEM.

DOMESTICALLY, HARTLING MINORITY GOVERNMENT HAS NOT DISTINGUISHED ITSELF DURING ITS FIRST 100 DAYS, BUT WITH DOGGED DETERMINATION IT HAS MANAGED TO REMAIN IN OFFICE, NO MEAN ACHIEVEMENT IN VIEW OF THE FACT IT HOLDS ONLY 22 SEATS IN 179 SEAT PARLIAMENT. LOCAL ECLECTIONS ON MARCH 5 CONFIRMED WIDE-SPREAD DISCONTENT AND APATHY ON PART OF ELECTORATE, WITH EXTREMISTS OF RIGHT AND LEFT THE PRINCIPAL GAINERS. SITUATION DOES NOT APPEAR TO HAVE WORSENED APPRECIABLY SINCE NATIONAL ELECTION IN DECEMBER, HOWEVER, AND PROGRESS PARTY OF MAVERICK ANTI-TAX LAWYER MOGENS GLISTRUP IS SHOWING SIGNS OF COMING APART BASED POLITICAL CONSENSUS IN PARLIAMENT EVENTUALLY. POLITICAL BALANCE NOW IS SO FRAGILE THAT NEW ELECTIONS COULD BE PRECIPITATED AT ANY TIME. LACK OF CONFIDENCE AMONG NEARLY ALL PARTIES THAT THEY COULD IMPROVE THEIR POSITIONS MATERIALLY IN EARLY ELECTIONS IS, HOWEVER, POTENT ANTIDOTE TO TEMPTATIONS OF RETURNING TO POLLS AGAIN SOON. END SUMMARY.

1. DANISH SCENE HAS NOT PERCEPTIBLY CHANGED SINCE EMBASSY SUBMITTED ITS QUARTERLY TREND REPORT FOR FOURTH QUARTER 1973 (COPENHAGEN 3257). DANES HAVE ESSENTIALLY BEEN MARCHING IN PLACE FOR PAST THREE MONTHS BUT THIS HAS SOMEWHAT ENCOURAGING ASPECT BECAUSE, ALTHOUGH SITUATION HAS NOT IMPROVED, NEITHER HAS IT DISINTEGRATED

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PAGE 03 COPENH 00829 01 OF 02 281129Z

ANY FURTHER. OUTCOME OF LOCAL ELECTIONS MARCH 5 (COPENHAGEN 618) APPEARED TO CONFIRM EMBASSY'S REPORTING ON DETERIORATION IN PUBLIC ATTITUDE TOWARD GOVERNING PERSONALITIES AND ORGANIZATIONS. FINAL RESULTS SHOWED PRINCIPAL GAINERS TO BE TWO EXTREMIST PARTIES ON RIGHT AND LEFT: MOGENS GLISTRUP'S PROGRESSIVE PARTY AND DANISH COMMUNIST PARTY.

2. AT NATIONAL LEVEL, PRIME MINISTER POUL HARTLING HAS MANAGED TO CLING TO OFFICE. HOWEVER, HIS OWN MODERATE LIBERAL PARTY (V) IS IN SUCH A SMALL MINORITY THAT HE HAS HAD TO RELY HEAVILY ON PARLIAMENTARY SUPPORT FROM SOCIAL DEMOCRATS (S), WHO HAVE BEEN ABLE TO EXACT HEAVY PRICE IN TERMS OF ENACTING THEIR OWN PROGRAM UNDER HIS AEGIS. THE RESULTING UNEASY ALLIANCE BETWEEN V AND S COULD CONCEIVABLY LAST WELL INTO 1975, GIVEN GENERAL LACK OF ENTHUSIASM FOR NEW ELECTIONS. SOCIAL DEMOCRATIC SPOKESMEN REGULARLY ASSERT THAT THEIR PARTY WILL NOT SERVE AS A SECURITY NET FOR BOURGEOIS POLICIES, BUT THEIR DECLAMATIONS APPEAR TO BE LARGELY MOTIVATED BY DESIRE TO IMPROVE THEIR LEVERAGE ON GOVERNMENT'S POLICY FORMATION.

3. ON ECONOMIC SIDE, VERY REAL POSSIBILITY OF ENERGY SHORTAGES WAS AVERTED BY MILD WINTER; THOSE SECTORS OF INDUSTRY HEAVILY DEPENDENT ON OIL SHIFTED PARTIALLY INTO COAL, AND MINIMUM RESTRICTIONS KEPT GASOLINE CONSUMPTION TO TOLERABLE LEVELS. DIRE PREDICTIONS OF PRODUCTION DISRUPTIONS AND HIGH UNEMPLOYMENT WERE NOT REALIZED AND THE ECONOMY HAS MOVED INTO SPRING IN FAIRLY NORMAL SHAPE. NONETHELESS, BASIC PROBLEMS OF ACCELERATING INFLATION AND INCREASING BALANCE OF PAYMENTS DEFICIT REMAIN AND ARE BEING REINFORCED BY DRASTIC SHIFTS IN TERMS OF TRADE RESULTING FROM SHARP PRICE INCREASES FOR ENERGY AND OTHER RAW MATERIALS.

4. KEY PROBLEMS, THEREFORE, ARE EXTENT TO WHICH DENMARK CAN MAINTAIN OR EXPAND EXPORTS IN FACE OF

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PAGE 01 COPENH 00829 02 OF 02 281139Z

51

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C O N F I D E N T I A L SECTION 2 OF 2 COPENHAGEN 0829

ANTICIPATED SLOWDOWN IN EXTERNAL DEMAND. THESE DEPEND ON DENMARK'S ABILITY TO KEEP INFLATION TO LEVELS COMPARABLE TO ITS MAJOR TRADING PARTNERS AND ON AVOIDANCE OF BEGGAR-THY-NEIGHBOR POLICIES BY OTHERS. BECAUSE OF ITS HIGHLY DEVELOPED AND RELATIVELY RIGID SOCIAL BENEFIT SYSTEM, DENMARK IS AT SOME DISADVANTAGE IN CONTROLLING BUILT-IN FACTORS (E.G, AUTOMATIC COST OF LIVING INCREASES, GENEROUS UNEMPLOYMENT COMPENSATION) WHICH
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PAGE 02 COPENH 00829 02 OF 02 281139Z

FEED INFLATION. WEAKNESS OF PRESENT GOVERNMENT WOULD IN ANY EVENT MAKE IT CLOSE TO IMPOSSIBLE TO TAKE DRASTIC CONTROL MEASURES. ADDITIONALLY COMPLICATING THE SITUATION IS UNCERTAINTY OVER OAPC POLICY TOWARD DENMARK. FOR REASONS WHICH ARE UNCLEAR, SAUDI ARABIA HAS NOT PERMITTED OIL SHIPMENTS TO DENMARK SINCE OCTOBER, AND ALGERIA RECENTLY PLACED DENMARK IN THE SAME CATEGORY AS THE NETHERLANDS. IF THESE ACTIONS SHOULD PRESAGE AN ARAB OIL BOYCOTT AGAINST DENMARK, VERY SERIOUS PROBLEMS COULD RESULT BECAUSE OF DENMARK'S OVER 90 PERCENT DEPENDENCE ON IMPORTED OIL AS SOURCE OF ENERGY. PUTTING ALL THESE CONSIDERATIONS TOGETHER, MOST FORECASTERS SEE BUILD-UP OF PROBLEMS IN COURSE OF THIS YEAR LEADING INEVITABLY TO HEAVY STRAINS ON BALANCE OF PAYMENTS, WORSENING INTERNATIONAL COMPETITIVE POSITION AND, POSSIBLY, INCREASED UNEMPLOYMENT. SHOULD SITUATION PLAY OUT THIS WAY, UNSAVORY DECISIONS GOVERNMENT MIGHT BE REQUIRED TO MAKE WOULD PUT FURTHER STRAINS ON PRESENT TENUOUS

POLITICAL ALIGNMENTS.

5. GIVEN THEIR DOMESTIC ECONOMIC PROBLEMS, THEIR HEAVY DEPENDENCE ON TRADE AND CRITICAL NEED FOR AN ASSURED ENERGY SUPPLY, DANES HAVE BEEN STAUNCH SUPPORTERS OF INTERNATIONAL EFFORTS TO RESOLVE PROBLEMS IN TRADE, FINANCE AND ENERGY. THEY REMAIN COMMITTED TO A SUCCESSFUL "TOKYO ROUND" OF MULTILATERAL TRADE NEGOTIATIONS, HAVE ASSURED CONTINUING GERMAN SUPPORT FOR THEIR CURRENCY THROUGH CONTINUING MEMBERSHIP IN THE NOW SMALLER EC JOINT FLOAT, AND ARE PLAYING A CONSTRUCTIVE ROLE IN THE ENERGY COORDINATING GROUP. BECAUSE THEY HAVE LEARNED TO APPRECIATE ECONOMIC BENEFITS OF EC MEMBERSHIP, THEY ARE VERY CONCERNED OVER CENTRIFUGAL FORCES WITHIN COMMUNITY, DRAMATIZED PARTICULARLY BY EVENTS AT WASHINGTON ENERGY CONFERENCE. WHILE FOREIGN MINISTER ADMITS TO PRO-FRENCH SYMPATHIES ("I FEEL I UNDERSTAND THEM"), AND DANISH-FRENCH INTERESTS COINCIDE ON SOME COMMUNITY ISSUES, BASIC DANISH COMMITMENT IS TO INCREASING ECONOMIC COOPERATION WITHIN A COMMUNITY IN CLOSE ASSOCIATION WITH U.S. FOLLOWING THE ENERGY CRISIS, THEY FIND, MORE THAN EVER, THAT MAJOR WORLD ISSUES DIRECTLY AFFECTING THEIR OWN ECONOMIC INTERESTS CANNOT

CONFIDENTIAL

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PAGE 03 COPENH 00829 02 OF 02 281139Z

BE HANDLED ALONE BY A COUNTRY OF DENMARK'S SIZE AND RESOURCES.

6. RECENT SHARPENING IN US-EC DIALOGUE HAS BECOME A SOURCE OF CONCERN TO RESPONSIBLE DANES; THEY WILL TRY TO AVOID AT ALL COSTS BEING PUT IN A POSITION OF HAVING TO CHOOSE BETWEEN U.S. AND "EUROPE". HARTLIN HAS TOLD THE AMBASSADOR THAT HE REGRETS THE MISUNDERSTANDING AND IS STRONGLY IN FAVOR OF STRONG TRANS-ATLANTIC TIES. FORMER FONMIN K.B. ANDERSEN, ON BEHALF OF THE SOCIAL DEMOCRATS, HAS TAKEN THE SAME LINE IN TALKS WITH THE EMBASSY AND IN NEWSPAPER ARTICLES. THESE RELATIVE HEAVYWEIGHTS SHOULD BE ABLE TO CONTAIN, AND PERHAPS REDUCE, ANY DAMAGE TO OUR INTERESTS RESULTING FROM THE PRO-FRENCH PROCLIVITIES OF GULDBERG.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, ECONOMIC TRENDS, POLITICAL SITUATION, POLITICAL PARTIES, ELECTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974COPENH00829
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740067-0747
From: COPENHAGEN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974039/aaaaahod.tel
Line Count: 268
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: COPENHAGEN 3257 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 01 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 APR 2002 by collinp0>; APPROVED <05 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: QUARTERLY TREND REPORT - DENMARK (FIRST QUARTER 1974)
TAGS: PFOR, PINT, DA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005